

The Business Case for Nearshoring to Canada

(the other country that ends with "a")

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March 30, 2006

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Overview

- What this presentation is about
- What this presentation is **not** about
- Product Development Outsourcing
- Canada's sweet spot
- Show me the money
- What to expect in the near future

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Product Development Outsourcing (PDO)

- Relatively new but growing fast
- Other industries: 90% of companies outsource in R&D
 - "Any start-up today, particularly a software company, that does not have an outsourcing strategy is at a competitive disadvantage" (CNN 2004)
- In software (2004): 25%
- In software (2005): 36%
- Growing at 30%+ CAGR
- Leading players:
 - India
 - Canada
 - Russia

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Show me the money

- No really, what will I pay?
- Incentives:
 - SR&ED
 - IRAP
 - OIDMTC
 - Dollar
 - Lower salaries
 - High productivity
- Case study : CO in valley

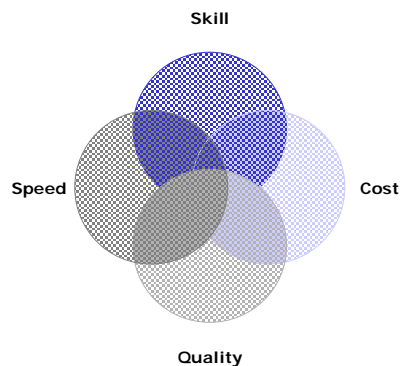
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Canada's sweet spot

- Culture?
- Language?
- Timezone?
- Our legendary politeness?

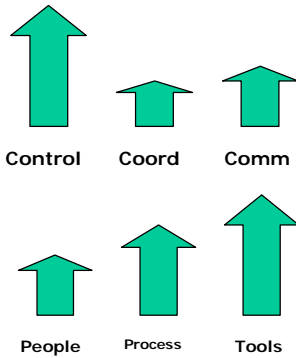
Your choices

- Facts:
 - No one partner can fulfill every project
 - Not every project can be outsourced
 - Not every project can be done in-house

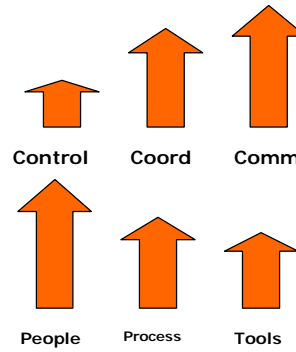


Matching project with provider

Maintenance

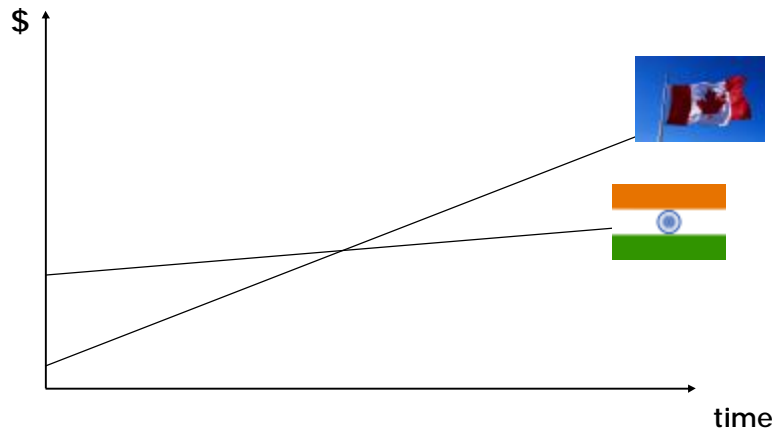


New products



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Innovation vs. Capacity



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The future of PDO

- From 25% to 90% of Companies outsourcing Software R&D
- From competitive advantage to must do
- Global companies

Takeaways

- Take an honest look at:
 - Your readiness to outsourcing
 - Your project
- Pick the right vendor for your project
- Have more than one vendor

Q&A

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Bottom-Line Cost of an R&D Project for a Profitable Firm (with IRAP, SR&ED and Ontario Benefits and Taxes)^{A,B}

	SMALL FIRM	LARGE FIRM
	\$	\$
A - Gross R&D	10,000	100,000
B - IRAP Support	-4,000	-40,000
C - Net Cost Before Tax	6,000	60,000
D - Tax Savings		
i.a. Prov Investment Tax Credit – 10%	600	6,000
i.b. Federal Investment Tax Credit (ITC) #127 Small Firm – 35% Large Firm – 20%	1,890	10,800
ii.a. Provincial Corporate Tax – 5.5% / 14%	+ 297	7,560
ii.b. Federal Tax act 37 (C minus Di) Small Firm – 12% + 1.12% surtax Large Firm – 21% + 1.12% surtax	+ 460	9,555
iii. TOTAL:	3,247	33,915
E - Net cost after tax (C minus D iii)	2,753	26,085
F - Actual cost per \$1 spent on R & D	28 cts	26 cts
G - Net Cost if no IRAP	48 cts	43 cts
H - Net Cost if no IRAP & no ITC contribution i.e. regular business expense	81 cts	64 cts

A) Calculations courtesy of Kent Smith, PricewaterhouseCoopers, 613 755 8742 Sept 2005

B) For more details, contact your accountant.